LEKWA LOCAL MUNICIPALITY

“MP 305”

ADJUSTMENT BUDGET

2013/14 MTREF

Contents

Mayors Report

Honourable Speaker guided by section 28 (1)(4) of the Municipal Finance Management Act 56 of 2003, it is my pleasure to present the 2013/2014 budget adjustment budget which is informed by the budget approved by Council in a special Council meeting held on 28rd of May 2013.
Indeed am confident to witness that, our budget and Integrated Development Plan were adopted and approved after an intensive public consultation in various platforms including, IDP representative forums, and Mayoral Izimbizo and ward community meetings. It was evident that our communities had expectations, which needed our attention as Local Government to attend to.

The plights of our communities included among other things:

- High rate of unemployment for local residents especially the youth
- Shortage of RDP houses
- Shortage of good recreational facilities
- Social amenities such as community halls
- Shortage of health care facilities
- Unfavourable condition for business and economic growth in the area
- substandard of quality service rendered to our communities

Looking back on the path we have travelled since the approval of the budget on May 2013, we pride ourselves that as the municipality we are responding to those challenges and we remain committed to address the remaining ones.

We also acknowledge that a lot must still be done to ensure that the living conditions of our people are changed for the better.

The following are highlights in respect of the considerations during the budget adjustment processes:

- As at 31 December 2013 which is the Second-quarter (Year to Date) results for the 2013/2014 Budget year, the municipality generated a total operating revenue amounting to R 232 million while the operating expenditure per category is reflected as R 243 million;
- The operating deficit of R 11 million;
- The statement indicates a variance in the revenue billed amounting to R 18 million which is attributed mainly to service charges and other the revenue;
- The revenue has increased by 16% (R 32 million) while the expenditure has increased by 4% (R 10 million) when compared to the 2012-13 financial;
- Revenue collected for the first six months has improved by 4 % (R11 million) when compared to the same time last financial year while expenditure has steadily increased by 2% (R 7 million);
- In the adjustment budget the total anticipated revenue to be generated amounts to R 436 091 146 which indicates a decrease in municipal revenue amounting to R 21 026 316;
- The total anticipated expenditure to be incurred amounts to R 634 252 260 which indicates an increase in municipal expenditure amounting to R 19 812 268;
- An additional R 37 million will be allocated to the provision of doubtful debt;
- On the expenditure side, areas of concern was overtime paid to employees, fuel consumption, repairs and maintenance of municipal vehicles, security services as well and meter reading services;
- The total Capital budget amount has been adjusted to R 61 849 681 as a result of projects carried over into the 2013/2014 budget year.

Honourable Speaker, on behalf of Lekwa Municipality I reaffirm to all our residents that speeding up service delivery remain our focal point, meaning that we are hard at work striving to ensure that a better life for all become a reality.

Our focus as we have adjusted the 2013/2014 budget, given the on-going constrains on the side of revenue generation, it will be critical for Council to take serious or tough decisions on the expenditure part over the next remaining five months in the current financial year in order to stay afloat. As the municipality we hope and believe that if we are working together we will overcome the remaining challenges as reflected above.

The following must be prioritised to ensure that we do the best with the little we have.

- Filling of all critical vacancies especially service delivery related (Water, sanitation etc)
- More spending must be directed to service delivery (not nice to have)
- Credit control and debts collection must be implemented without compromise
- Revenue collection be a priority of all managers where revenue can be collected
- Improve spending on capital projects that are funded by MIG
- Reduce spending on over time and other unnecessary or avoidable expenditure.

Honourable Speaker in conclusion I would like to take this opportunity to thank all stakeholders who participated in the compilation of both our adjustment budget, especially Provincial Treasury. I also wish to thank all Councillors and the administration for the positive participation and valuable contribution during the budget adjustment processes.

I thank you

Council (S): 2014-02-26

ITEM A38 ADJUSTMENT OF THE 2013/14 APPROVED (6/1/1-2013/2014)

Council Resolution

(1) That the report of the Executive Mayor (Municipal Manager) BE NOTED regarding the Adjustment Budget in terms of Section 28 of the electricity being over stated;

(2) That the Operating Revenue BE REDUCED by R21 026 316 as a result of poor collected of revenue and the revenue from sales of electricity being overstated;

(3) The Operating Expenditure BE INCREASED by R19 812 681 to be allocated to the provision for doubt-full debts;

(4) That the Operating Revenue amounting to R436 064 830 BE APPROVED;

(5) That the Operating Expenditure amounting R634 252 260 BE APPROVED;

(6) That the operating deficit amounting to R198 187 430 BE REDUCED in the 2014-15 MTREF going forward;

(7) That the approved roll over amount R32 591 952 for MIG BE INCLUDED as part of the Adjustment Budget with all current and roll over projects to BE FINALISED in this (2013/2014) financial year and BE HANDED over in April 2014;

(8) That the capital budget amounting to R77 920 052 BE APPROVED;

(9) That the approved tariffs on rates and service charges REMAIN unchanged;

(10) That the 2013/2014 Adjustment budget proposals as contained in the Medium Term Revenue and Expenditure Forecasts for the financial year 2013/2014 to 2015/2016, as amended, BE APPROVED AND BE SUBMITTED to the National and Provincial Treasury;

(11) That the revenue enhancement strategy BE IMPLEMENTED;

(12) That the cost curtailment measure continues to BE A PRIORITY;

(13) That the budget tables (schedule B1) attached as **Annexure "A"** BE APPROVED;

(14) That Service Level Agreement BE FINALISED by end of March 2014 and that departments to come up with strategies to reduce overtime;

(15) That provision of legal cost to BE PART of the Revenue Enhancement report which will BE TABLED at the next Council Meeting to be held on March 2014.

(Councillors P T Schnetler, J R de Ville, J F Buthelezi, P Mphuthi, J L van Rensburg and J J van der Wath requested their vote to be minuted against the resolutions)

Executive Summary

In terms of the mid-year assessment report submitted to council on the 24th January 2014, the municipal financial performance for the first six months was reported as follows. The total operating revenue for the reporting semester amounts to R 232,037,922 while the operating expenditure amounts to R 243,093,954 which resulted in an operating deficit of R 11,056,032.

The statement indicates a variance in the revenue billed amounting to R 18 million which is attributed mainly to service charges and other the revenue. There was a significant saving of expenditure amounting to R 60 million thus reducing the year to date deficit to only R 11 million. The employee related cost was exceeded by 5% this was as a result of additional employment been made as well as the adjustment in the remunerations of section 79 committees' chairpersons

There is also and under expenditure on bulk purchases and this is attributed to the municipality not been able to services its bulk purchases account adequately.

The provision of subsidies services for indigent household has declined as only 3345 households have been registered to date while a provision was made to register at least 6000 households.

The revenue has increased by 16% (R 32 million) while the expenditure has increased by 4% (R 10 million) when compared to the 2012-13 financial

The actual receipt (cash) for the period amounts to R 265, 014, 030 which included grants & subsidies amounting to R 86, 219, 000. The actual payments made amounts to R 261, 903, 702 which includes the electricity bulk purchases amounting to R 88, 427, 948, employee related costs of R 59, 945, 346 contracted services amounting to R 3, 302, 567. The municipality had a net decrease in cash held at the end of the reporting semester amounting to R 17, 204, 666.

Revenue collected for the first six months has improved by 4 % (R11 million) when compared to the same time last financial year while expenditure has steadily increased by 2% (R 7 million).

The debtors balance has increased by R 48,881,796 from R 323, 927, 896 to R 372, 809, 692 for the period June 2013 to December 2013. Outstanding Debtors that are older than 90 days amounts to R 296,654,526 (79%) of the total outstanding debts.

The debt from households amounts to R 293 million, governments R 17 million while business owed R 41 million. Electricity contributes R 53 million of the outstanding debt, Property assessment rates R 74 million, Water R 65 million while interest on arrears amounts R 72 million.

The average collection rate for the past 6 months amounted to 63% for the period ending December 2013,

The outstanding debts have grown by 27% (R 80 million) when compared to the same period during the 2012-13 financial year

Due to the above mentioned it was imperative for the municipality to adjust its budget in order to cater for the decline in revenue collection

How the adjustment budget affects the approved budget can be classified as follows:

Revenue

The total anticipated revenue to be generated amounts to R 436 091 146 which indicates a decrease in municipal revenue amounting to R 21 026 316. The decrease in revenue was due to revenue been over stated in the approved budget.

The overstatement emanated from the fact that during the 2012-13 Adjustment Budget preparation period, the municipality undertook the project of revenue enhancement as well as to implement credit control which would have resulted in the municipality maintain a debt collection rate of above 80% per month but this objective was not attained. Because of the inconsistency in implementing the credit control due to lack of tools of trades the municipality's revenue declined drastically thus affecting the approved budget. In an effort to remedy the situation certain revenue items had to be reduced as the municipality will not be able to generate the revenue this included the reduction of Sale of electricity by R 20.8 million while vehicle licenses was decreased by R 5.6 million. It should be noted that electricity contributes a large portion to the total municipal revenue.

Assessment rates were increased by R 2.7 million which resulted from certain properties not being levied property rates. Interest on arrears was also increased with R 1.3 million which is contributed to the growth in outstanding debtors while other revenue line items were increased by R 1 million.

The municipality with the assistance of Provincial Treasury has prepared a revenue enhancement strategy which is driven by the Executive Mayor. The strategy will focus on the areas amongst other:

- Ensuring that the credit control and debt collection policy is gazetted as a matter of urgency in order to ensure that legal issues are resolved and to minimise court cases.
- Enforcement of credit control policy as well as indigent policy. Consumers with arrear accounts to be cut-off to ensure payment received of outstanding accounts.
- Incentives for example a draw of all those who have paid their accounts for a full year without defaulting the winner drawn per ward to be dined by the Mayor and to be included in a lucky draw to win a fridge or stove or something in that light.
- Disconnections
    - enforcement of credit control
    - strict monitoring & supervision of service provider & municipal staff
    - after the 7th of each month ,all unpaid accounts to be disconnected
    - implement water restriction devices & disconnect water for businesses
- Reconnection
    - instruction for Reconnection effected within 48 hours
    - only finance to issue reconnection orders
- Fully fletched legal acknowledgement of debt document with legal stamp etc./Arrangement must include that current account and installments calculated to be paid on a monthly basis. The under mentioned suggestions is targeted for accounts of 90 days and more (Amount owed not applicable). If arrangement or "contract "is defaulted on that the interest be reinstated and that the full amount of 90 days be handed over to the debt collector after credit control (cut-off of services) were strictly enforced. That no reconnection be allowed if proof of complete arrangement was made with the debt collector. The original agreement with the debt collector must indicated that if the agreement is not honoured with such debt collector that the consumer agree to be handed over to a legal route.
- Encouragement consumers to pay at least the current account to invoke the culture of paying for municipal services
- Investigate possible ways of improving meter reading services which will include meter auditing as this will improve the confidence of the public on the accounts.
- The municipality will also investigate the processes including the cost associated with the setup of a customer care unit

- The officials and councillors who are owing the municipality will continue to be monitored and the affected parties affected will be encourage to pay for services and failure by the affected parties to honour the agreement will result in services been disconnected and or the arrears been deducted directly from their remuneration.
- Lease agreements /Letting of buildings as well as staff housing will be reviewed this will involve signing of lease agreements for occupants of municipal properties as well as ensuring that market related rates are levied.
- The municipality will investigated the possibility of activating the credit control section within the limited resources at its disposal.
- Council to consider to appoint debt collectors (two companies at least) working on commission per case that was successfully finalised in the collection of arrears that was acknowledged by the defaulter after the under mentioned exercise was finalised
- Data cleansing information to be captured on FMS to reflect true and correct information in order for credit control to act against defaulters

- The tariffs will be reviewed especially for services that are not recovering cost of provision of the services e.g. Refuse, sewerage & water

Expenditure

The total anticipated expenditure to be incurred amounts to R 634 252 260 which indicates an increase in municipal expenditure amounting to R 19 812 268. The decrease in revenue was due to revenue been over stated in the approved budget.

The cost driver which resulted in increase in the operating expenditure includes but not limited to the following: provision for bad debts was increased by R 37 million this was due to inadequate payments of services by consumer. The provision for overtime has increased by R 5 million. The budget for overtime was reduced considerably for the 2013-14 MTREF, this was done with the view that appointments of personnel will be only for strategic positions as well as positions which will reduce the overtime but that process has not yielded the desired outcome. Contracted services has increased by R 11 million which is attributable to understatement of the budget as well as an absence of service level agreements governing some contracts.

A provision of R 1.1 million has been made for the replacement of the aging electricity cable in Sakhile. Acting allowance has been increased by R 752 thousand as it takes longer to complete the appointments of various positions which results in personnel acting in position for an extended period. A provision for indigent subsidy has been decreased by R 11 million as a result of the slow process of registering of indigent households. Bulk purchases have been reduced by R 9 million this was as a result of the budget being overstated. The provision of repayment to Mpumalanga Transport has decreased by R 4.5 million as this should correlate directly to the income generated from the rendering of the service on behalf of the department and currently this service is been rendered at loss to the municipality.

Salaries have been reduced by R 3.8 million as a result of the slow process of filling vacant positions. Furthermore it should be noted that the filling of vacant positions also attracts other cost associated with filling of those which includes but not limited to advertising cost, office equipment and office space. Though the operating budget has been reduced immensely but no sufficient provision has been made for repairs and maintenance of the municipal assets.

A provision of R 134 million has been made for depreciation of assets. Due to the financial constraints of the municipality though a provision has been made for depreciation the municipality does not have sufficient cash to replace the aging assets after the depreciation has been written off. In terms of the norms and standard set by National Treasury the municipality should provide at least 8% for Repairs and Maintenance and at least 40% of the capital budget should be towards the renewal of existing assets.

In line with MFMA circular 55 & 70 the municipality is urged to step up its efforts to combat waste, inefficiency and pay special attention to cost containing measures and controlling unnecessary spending on nice-to-have items and non-essential activities. This should be done in conjunction with the cabinet resolution of the 23th October 2013 that cost containment measures must be implemented to eliminate waste, reprioritise

spending and ensure savings on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering and events costs as well as costs for accommodation.

Operating Deficit

The current deficit for the municipality has increased from R 157 348 433 to R 198 187 430 in the 2013-14 adjustment budget. The R 40 838 997 increase in deficit was as a result of inadequate provision for bad debts as well as the revenue being reduced by R 21 million and expenditure increasing with R 19 million. It should be noted that it is possible to further reduce the budget without affecting service delivery. This budget should be seen as a survival budget. Unless the municipality can improve its revenue bases the situation will continue to deteriorate.

In terms of National Treasury the municipality may budget for operating deficit over the medium term, however this should be temporary circumstances especially in for current implementation of GRAP 17, which may result in increased "depreciation and asset impairment" that is not fully accommodated in the municipality's tariffs and as a result drives the operating budget into deficit. Ideally the operating deficit should be equivalent to the depreciation then gradually be phased off into a moderate surplus in the future. The current cash flow deficit amounts to R 64 091 030 which is an increase of R 40 838 993 from the approved budget.

It will take approximately 24 months for the municipality to stabilise the financial position and have at least a funded budget. This will not cover any arrears amounts as well as any additional crisis expenditure (impetuous repairs & maintenance of assets or any other expenditure that is not planned). For the municipality to stabilise the financial situation it will require commitment, dedication from both officials, councillors as well as the communities at large. Provincial Treasury & COGTA have also committed to assisting the municipality in various revenue enhancing strategies. It is also important to have designated personnel assigned specific responsibilities with clear time frames and also to have continuity in administration and leadership positions.

Capital Budget

Due to the financial constrains the municipality was unable to budget for capital projects which will be financed internally. Because it is acknowledge that the municipality is having a serious challenge on aging assets especially on vehicles for delivery basic service a provision will be made for purchasing of vehicles for electricity & water divisions with the view that since this are revenue generating services the municipality should be able to recoup the funds from the implementation of credit control. The municipality must further approved the 2012-13 rollover projects.

Funding choices and management issues

Municipality is once again reminded that given on-going economic pressures, the revenue side of municipal budgets will continue to be constrained, so the municipality will need to make some very tough decisions on the expenditure side of the budget. Priority still needs to be given:

- Ensuring that drinking water and waste water management meets the required quality standards at all times;
- Protecting the poor;
- Ensure that *public investments, services, regulations and incentives* are focussed in defined spatial areas (spatial targeting) to optimise overall connectivity and access to opportunities;
- Provide clear signals to private sector;
- Transport, human settlements, bulk infrastructure, economic infrastructure, land use management (e.g. zoning), tax and subsidy incentives;
- Supporting meaningful local economic development (LED) initiatives that foster micro and small business opportunities and job creation;
- Securing the health of their asset base (especially the municipality's revenue generating assets) by increasing spending on repairs and maintenance;
- Expediting spending on capital projects that are funded by conditional grants;
- To implement cost containment measures.

Municipal Manager's quality certificate

I ***Linda Bernard Tshabalala,*** municipal manager of Lekwa Local Municipality, hereby certify that the adjustment budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name Linda Bernard Tshabalala

Municipal Manager of Lekwa Local Municipality (MP305)

Signature

Date 26 February 2014